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CANADA'S RAILROAD PROBLEM

An Analysis of the Advantages of and Objections to the Government Ownership of Canadian Railways, with a Suggestion as to the Remedies for our Existing Difficulties

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Canada's Railroad Problem

THE present juncture in our national development, when great questions are pressing upon us for appropriate solution, brings before the public, among other vital issues, the problem as to what is to be done regarding the railways of the country. Probably there is no other phase of our economic life which is of greater importance to all classes of the people. The value of the transportation services brings before each of us, whether engaged directly in business or indirectly affected by business interests, the intimate relation which so clearly exists between the welfare of the railways and that of the general public, that I venture to advance some considerations which may help to set this far-reaching transportation problem in its proper light. But, before proceeding further, may I say that I am not writing with any partisan purpose in view, nor am I endeavoring to put forth a panacea for the relief of all the railway ills of the country; my aim is to impartially consider some aspects of this great question which need to be kept perpetually before us, especially in view of the many advocates who are urging a complete change in our policy of dealing with these vast interests. We should not seek any such change without serious study as to the probabilities of the outcome. May I reiterate that in treating this subject I am anxious to be just to all classes, both to those who are in favor of and those opposed to government ownership of the railways. Only by seeing the problem from all sides can we weigh the relative merits of government and private ownership so as to come to a judicious conclusion. Leaving aside any bias, therefore, let us look at the problem with judicial mind.

Great Difficulties Encountered.

The importance of the railways to the country and the difficulties encountered by them in the financing of their operations have been so great as to cause the government last year to appoint a railway board of inquiry composed of experts, to go into the situation thoroughly and report its findings and recommendations. This board has recently completed its labors and from the statements published in advance of the report itself, it seems as if a majority of that body were in favor of the nationalization of the Canadian Northern and Grand Trunk systems.

Of these two, the Canadian Northern has been unable to meet a large portion of its fixed charges, and the Grand Trunk Pacific, a subsidiary of the Grand Trunk Railway Company, while unable to meet any of its fixed charges, has also had a large deficit in its operating expenses. These facts have compelled the two companies to appear before parliament and ask that body to advance them the necessary assistance to enable them to discharge their financial obligations. From all appearances, these companies, if left under present control, may have to seek such aid for several years, for both of them have been expending largely on capital account in the construction of new lines through undeveloped territory in the West, and it is inevitable that, until the traffic of this western country is increased to such an extent as will permit the roads to pay their own way, assistance must be obtained from other sources than the traffic. Because of the necessity of obtaining relief from governmental sources, the railways, it is said, should be taken over by the government; and one of our leading dailies closes an editorial on "Canada's Railway Problem" with the sentence: "The next grant of public money for railways must carry public ownership with it." Taking the utterances of the press in connection with the foregoing recommendation of the board of inquiry, it is manifest that there is a strong sentiment in favor of this proposed change.

Nothing Gained by Precipitate Action.

It is not our purpose here to endeavor to settle this vexing problem. It has too many ramifications to be treated lightly or to be summarily disposed of by a few glib statements as to the evils of private ownership and the advantages of government ownership. Nor can we settle it by pointing to a few instances of private railways whose managements have been corrupt and have flagrantly broken faith with the public, much less by taking certain examples of government ownership which have been successful and holding these up as models upon which to pattern our system of administration. It will be much to the advantage of this country if the Ottawa government refuses to act hastily in this matter. In such a momentous issue, nothing is gained by precipitate action and nothing really advantageous is lost by taking time to consider all sides of the case. We think it would be unwise to use the present exceptional circumstances—a time of tremendous stress on account of the war and the dislocation of industry, a time of intense mental unrest—as the occasion for changing a system of transportation which has grown up gradually during the past sixty years,

responding to the country's needs, showing wonderful adaptability and displaying initiative and ability of a high order. Such a system of administration, under which the extension of the transportation facilities has been of untold service in the development of agriculture, trade and manufactures, and which has been to a large extent responsible for the great prosperity and increasing wealth of this country, should not be cast aside unless there is at hand a new and better system which would indubitably carry on this service with equal or greater results. Let us, then, consider briefly, but carefully and deliberately, the proposed change and weigh the arguments pro and con with unbiased judgment.

Government Ownership Arguments.

First of all, what are the arguments in favor of government ownership in Canada?

The necessity on the part of the Dominion government to meet the guarantees of bond interest for the Canadian Northern and Grand Trunk Pacific railways without having any immediate control of these roads would seem to be contrary to any sound business policy. Any private corporation which has assumed the payment of interest on its bonds must be given full control of the property; and ostensibly the same prerogative would be expected in the case of a public corporation like the government which wished to conduct its affairs on strict business principles. The assumption of responsibility is correlative with the exercise of rights. But, in the case of these two roads, it would seem that the government has undertaken to guarantee and pay the interest on the bonds without having the privilege of controlling the financial operations of the companies. How long would any private enterprise endure which continued year after year to pay sums of money for expenditures over which it had no control? Bankruptcy would soon issue from such a course. The only reason it is not so with the government is that the latter makes its revenue large enough by taxation to meet its expenditure, while in the case of a private concern the course is just the opposite—its expenditure must be kept within its revenue. But although the government is in this respect fundamentally different from a private enterprise the same business principles which are recognized as judicious in the latter are the only principles upon which the former should act. To go contrary to these would be to court loss of confidence on the part of those who endeavor to exercise judgment and discretion in human affairs.

By government ownership of the railways it is hoped that both rail and water facilities would form one harmonious unity, operated for the public welfare. There are certain kinds of transportation which can only be done, or can be done most efficiently, by railway; and there are other kinds of traffic for which water transportation would seem to be more suitable. With the great system of inland waterways we have potential facilities which our government is wisely developing. Immense sums have already been spent in improving these waterways and the harbors upon them and yet, because the railways and waterways are not co-ordinated into a unified system much of the benefit from the navigation on the Great Lakes has not been conserved. Whenever definite steps have been taken by the government to enlarge or improve the canals and to preserve and extend navigation facilities of all kinds, the railways have consistently opposed anything which seemed likely to divert traffic to the water. Large interests have been secured by them in the water fronts of the important shipping centres, and for their own advantage they have been diligent in preserving these lands best adapted to navigation uses. Naturally, it has never been the policy of the railway companies to welcome their rivals. They have invariably sought to restrain such rivalry. But under government control and ownership these conflicting interests could be harmonized so that each would fulfil its own particular function with the greatest economy and acceptability to the public. And why should not the public receive the greatest advantage from the transportation facilities which are maintained by the contributions of the public?

Wastes of Competition.

Another important factor supporting the contention in favor of government ownership is that thereby the wastes of competition would be eliminated. It was long held that competition was the life of trade and that every business was naturally competitive. But we have outlived that day and can see that certain kinds of enterprise are naturally more monopolistic than competitive. Legislative bodies in Canada, as well as elsewhere, have, however, not abandoned the view that prevailed in the early railway era that the public interests can be most effectively guarded by authorizing the construction of two or more lines along the same general route. To have two or three separate and competing railway companies, each with its own complement of necessary facilities, and the multiplication of lines, stations, offices and officials with the

vast expense connected with their maintenance, is to conduct the business in the most uneconomical method possible. The railway companies themselves early recognized this wasteful policy and endeavored to get together into working agreements; but legislatures, ignorant of the real nature of the railway business, have, under the strong pressure of railway interests, sanctioned the construction of new lines where the existence of the latter has been a sheer waste of public funds, thinking thereby that they were upholding competition in furtherance of the public welfare.

How great has been this duplication or triplication of lines in Canada a casual inspection of our railway system will reveal. The fact that railway magnates themselves have been the aggressors in this movement does not alter the fact that legislatures should have resisted appeals of this kind. Nor can we say that such appeals have yet ceased; on the contrary, the financial forces are even now arrayed to secure similar additional concessions for the building of unnecessary lines of railway, while other portions of the country are in great need of the facilities of transportation. Under a system of government ownership this great waste of capital could be avoided if we had those in the government who were invariably willing to exercise as much economy in the management of the country's affairs as a business man shows in the conduct of his own private business.

No Discrimination Shown.

Another motive leading to government ownership is that by this means equality of treatment would be given to all persons and all localities; in other words, that there would be no longer any personal or local discrimination. The reason for it would have disappeared, since government is intended to look after the welfare of all alike. It must be acknowledged that our railways have in the past been the means of building up large shippers to the detriment of the small shippers; and before the formation of our board of railway commissioners it is unquestionable that preferential treatment was given to favored persons and localities. Even at the present time, one has but to examine the decisions and judgments of this board to see the volume of complaints of this kind which come before it for adjudication.

If all the work of this arm of the government could be avoided and equitable conditions and rates be furnished to all communities and individuals without fear or favor, a long step would have been taken in the promotion of sound business morality. In most instances, the existing

inequalities have been due to the fact that powerful interests recognized the fact that by their strong representations to the railway companies the latter would frequently accede to their wishes; but if the railways were owned and operated by a government whose members could resist all pleas of private interests there would be no more occasion for this kind of favoritism. Under this system there would surely be the much desired equality of opportunity for all.

From Standpoint of Finance.

Government ownership would be desirable also from the financial standpoint; at least this is claimed by those who advocate this method of administration. Under ordinary conditions, the credit of the government is so good that it can borrow all the funds it needs at 4 or 4½ per cent., perhaps less; while private companies have to pay 5 to 6 per cent. for their capital requirements. In the financing of a great enterprise this saving would amount to a large sum in the aggregate; so that the amount of the fixed charges to be paid would be considerably lower. Again, since the government would operate the road at cost, no dividends would have to be paid. The savings effected from these two sources alone would be very great; consequently, under government management the revenues would not need to be so great and the result would be seen in either lower rates or increased service to the public. This assumes, of course, that public management will be as economical, efficient and productive as private management.

An argument, which is being worked to the fullest extent under existing war conditions, is that for purposes of national defence the government should own the railways. In order to make these facilities for transportation most effective for the carriage of troops, subsistence, munitions and the raw materials for the manufacture of munitions the carriage of all other commodities, even though they pay higher rates of conveyance, must be relegated to a place of secondary importance. But when the railways are left in private hands the tendency is to take first that traffic which will pay the higher rates. Moreover, when, as in the case of the Canadian Pacific Railway, a large block of shares is owned by German or other foreign stockholders, there is great danger that the foreign influence may be so strong as to dictate the policy of the road, and thus the efforts toward using the railway for national purposes may be rendered nugatory or partially unavailing. The example of the state-owned and operated railways of Germany in aiding the mobiliza-

tion of soldiers and supplies along the various fronts, and the example of England in assuming control of her railways during this emergency, have given additional emphasis to the need of having the railways completely devoted to the promotion of the national, as opposed to the private, interests.

To Further Colonization.

Finally, it has been said that roads like the Grand Trunk Pacific and National Transcontinental have been intended to further primarily the interests of colonization in the great West. Settlers will no longer go, as in early years, where there are no transportation facilities. Railways must be put through in advance of or synchronously with settlement and as this project of settlement of men upon the land is for the national development, the railways designed to advance this project should also be national. Private capital does not like to invest in an enterprise of this nature in which years must elapse before the road obtains sufficient traffic to pay the operating charges, to say nothing about profits. This is exactly the condition confronting the roads above mentioned. The National Transcontinental is owned and is being operated by the government, and the chairman of the board of directors of the Grand Trunk Railway Company has requested the government to take over the Grand Trunk Pacific. It is known that the National Transcontinental line passes through a stretch of country which is as yet in its infancy so far as the capacity of furnishing traffic is concerned; the settlements along the route are widely scattered and years may elapse before a sufficient amount of tonnage can be provided to make the railway pay.

Government Might Take Control.

Much the same may be said of the Grand Trunk Pacific; a long stretch of the road is put through undeveloped territory and as there are no lateral lines to act as great feeders for the main line it may be a few years before adequate traffic can be obtained to pay reasonable returns on the capital invested. It is in connection with such enterprises, therefore, that public aid and support can be reasonably invoked. If private capital is averse to adventuring itself in this kind of investment without having the backing of the government to assure the financial soundness of the business, it would seem as if the government might appropriately take complete control of this enterprise without reference to private capital at all.

The government, being a permanent institution, can afford to wait for a long time before receiving financial returns from such a venture; in time, with the growth of the traffic of a developing territory, the roads which at first were unremunerative would be found to yield ample revenues, and then the government could be rewarded for the great advances made by it in the earlier years. But this contrasts strongly with the conditions attending the investment of private capital, which, if it do not receive immediate and ample returns, will prefer to seek more profitable forms of investment.

Having looked at the advantages of government ownership, it will be well to consider, in the next place, the objections to or disadvantages of government ownership. In the administration of a railway system or any other large enterprise, prompt action is an imperative necessity in order to be able to meet the emergencies that are constantly arising. There is need for instant action in the despatch of business and in order to secure judicious outlay in the interest of economy. The many changes in commercial conditions, of which business men endeavor to take advantage, should be met by the agents of the railway companies armed with authority to grant traffic arrangements to meet the necessities of their patrons. A delay of even a few days may be fatal. So, too, in regard to line expenses; the replacing of a bridge in time, the ballasting of the roadbed when required, the changing of gradients and curves, and many similar items, when effected at the proper time will save large amounts in the expenses of operation and in many instances will provide the public with greater facilities and greater security. When private control is exercised the management is left in the hands of a capable executive, from whom immediate action may be obtained under all circumstances. In this way, not only the welfare of the company may be secured but also the interests of the public may be advanced. But Parliament is too unwieldy a body through which to secure immediate action. Any measure which is brought before the legislature becomes at once the subject of discursiveness in debate. It is referred to a committee for recommendation and the minute regulations under which Parliament proceeds, being determined by law, leave no power of initiative to the railway executive. Since the master has no power of initiative it cannot delegate any to the servant.

Parliament is altogether too slow in its deliberations to be the directorate of a great railway system. Its mem-

bers, representing widely separated localities with much diversity of interests, are sent to Parliament to act for the well-being of their own sectional or partisan interests and are in no wise able to see things from the larger point of view when it comes to the time for casting the vote. Out of this confusion of interests we cannot expect and do not find decisive action for the public welfare. Decisions which are finally reached are mostly compromises in order to adjust most amicably the vast variety of interests; and such indecision and compromise are fatal to the success of any large business of an economic character.

No official can administer the affairs of such a complex and changing mechanism as a railway system with even reasonable efficiency unless funds are at his disposal when they are needed. If otherwise, waste goes on, with misfortune to the property, to the owners, to the bondholders and to the public. When authorizations of funds are delayed for months, and sometimes for years, the effect is invariably and unavoidably increased cost of construction, maintenance and repair work, together with increased interest charges the longer the appropriation is delayed, and greater loss through the deterioration of the plant. It cannot be otherwise. Taking this in connection with the administrative expenses, which go on whether the property can be operated efficiently or not, we have a clear view of one great reason why governmental activity should not be exercised in regard to the administration of railways.

Party System and Railroads.

Another factor which militates against government ownership of the Canadian railways is our party system of government, with all that this includes. At a change of the party in power there is always so much undoing of work that had been done by the previous party in control. An uncertain, unstable policy of government is not conducive to the building up, upon a permanent basis, of a railway system that will be of national importance. In building for the future those who are entrusted with these responsibilities need to be assured that a continuously consistent policy will be shown, so that enterprises which have been initiated may be assured of completion. But this is impossible under our government with its vacillating policy, for public works which have been supported by one party when in power will be relegated to obscurity by the other party when it secures control. The result is that such works lack adequate continuous financial sup-

port until their completion, and so we have piecemeal construction, patchwork planning and temporizing operation. Public enterprises, like those of a private nature, must have the continuance of conditions upon which they can depend in order to build for the future; the lack of this essential would surely prove detrimental in devising the means for meeting future needs and emergencies. The influences of party and sectional demands have been all too apparent in recent years since the rise of the great agricultural western provinces, and while we do not, in the least degree, condemn those who have such influence for exercising it for the improvement of their economic condition, it furnishes us a striking example of the way in which partisan claims secure recognition at Ottawa.

Works for Inefficiency.

In a democratic state, not only has the direction of state-owned railways an overwhelming tendency toward inefficiency, but even the management partakes of the same character. We will recognize, however, that there are exceptions to this rule. Managers are not chosen because by training and experience they have fitted themselves to direct the affairs of a great enterprise, for government officials are usually selected on another basis than ability and aptitude in the special line of duty to which they are assigned. It does not follow that, because a man has ability in business life or skill as a physician or lawyer, he can be placed at the head of large railway interests after he has had experience in Parliament.

The work of a capable railway executive is as much a specialized calling as is that of a doctor or lawyer, and for its successful accomplishment requires training and intellectual ability of a high order combined with broad practical experience in the important grades of the service. To place any other kind of man at the head of a great railway would be to place a premium on incompetency, to create a misfit in one of the most important offices of the public service and to give rise to demoralization of the entire body of servants in the integration of their activities. In order to acquire a knowledge of any of the higher positions in the railway service a long period of educative and disciplinary experience is required; and in the case of the highest official, upon whom devolves the responsibility and control of the entire system, it would be a gross delusion to think that one without any railway experience, or even one with experience in only one aspect of the service, no matter how great might be his ability along other lines, could adequately measure up

to the demands attendant upon this office. Moreover, under our form of popular government administrative officers are frequently changed and with changes in the heads of departments there are many changes also in the important clerkships under them; and until these new men learn the details of their business their work bears the impress, to say the least, of immaturity and incompetence. Such conduct in connection with the railways of the country would be disastrous from every point of view. Expediency, under these circumstances of political change, would lead the officials of a railway to make a good showing in connection with the business over which they were given the temporary control; but in order to make a good showing in governmental enterprises we have seen the permanent upkeep and expansion curtailed in order that the affairs might show a favorable balance of profit. This tendency of managements, whether municipal, provincial or national, leads to a continuously short-sighted policy of retrenchment in necessary expenditures; and when due correction is made of the "favorable balance," upon grounds of prudential disbursement, the result would, in many instances, be a deficit.

Initiative is Checked.

Again, the relation of the executive to the directorate in governmental enterprise is not such as to lead to efficiency. The constant ebb and flow in industry and commerce which are so marked a feature of all our economic life necessitate frequently immediate action on the part of railway officials. We have seen this exemplified in many ways in the past few months, by the exigencies attending the moving of the crops last autumn and the provision of a supply of coal and agricultural necessities during the present winter. Under these conditions, the railway manager requires to have large authority and discretion vested in him, so that he can meet the unforeseen situations most effectively. But, were he the servant of government, he would not be allowed to act upon his own initiative, for under our government executives are restricted in their power so that the rights and liberties of the people may not be abused but fully conserved. To circumscribe an executive in this way, and cause him to act under a diffused authority which is so remote from him that he cannot secure immediate consultation, is to paralyze all his efforts, be they never so wisely conceived, and to induce indifference and inertia. Of course, the same characteristics tend to be produced in the men who are working under such an executive. This is one of the most incisive arguments against government ownership.

How can a railway manager secure results unless he has full discretion as to methods to be pursued and the personnel and promotions of the men who are to be his most intimate and trusted associates?

Finally, the management, under government ownership, has lost all the incentive of self-interest, which is such a potent factor in securing the great results that have flowed from private ownership. Giving due consideration to the evils which have followed private ownership, will anyone say that the unprogressiveness and lack of interest of government employees, the great army of whom know that promotion is for them a question of remote possibility, does not bring as great, if not greater, evils for the community? In the case of a great corporation, each employée wants to do his best in order to secure the promotion and other recognition that he desires. Only in this way can he secure this result, for it is very rare that, in a private concern, an incompetent will be advanced over the head of a competent individual. But promotion is not obtained in this way in government service, for here all the elements of personal influence and political favoritism which are commonly included under the term "pull" are invoked in order to bring preferment to a particular candidate.

To be sure, where civil service rules are applied the above methods are modified in a degree. But lack of immediate and personal self-interest on the part of government employees tends to retard or prevent the latter from displaying the inventiveness and resourcefulness which characterize the servants of a private corporation and which are such an important feature in the development of industry and enterprise. The inability of the individual to secure recognition tends to degrade the standards of personal efficiency in government service; and this would have very unfortunate ulterior results were the railways to be taken over by the government.

Financial and Political Objections.

In addition to the foregoing objections from the standpoints of control and active management, there are also financial and political reasons why government ownership is undesirable. Granting that the government could borrow, at the rate of, say, 3½ per cent., all the money required to refund the outstanding bonds of the companies, those persons and institutions which now hold these bonds would have to accept in lieu of them the government bonds bearing the lower rate of interest. This reduction in the earnings of the securities would bring

financial difficulties to banks, insurance companies and private individuals as owners of these securities. But it is greatly to be doubted if the government could borrow all the money it required for such a large financial venture as the purchase of the country's railways and of adequate facilities in the way of rolling stock and terminals to handle the increasing volume of traffic.

It is able, under ordinary times, to borrow at such low rates simply because it has not abused its credit. But the facts which have been brought before us on account of the war have put an altogether new look upon the problem of finance. Even those great countries like England and France with almost unlimited credit have had to pay much higher interest rates for their increasing necessities; and Canada, in order to secure her latest borrowings, has had to offer a rate of interest enormously greater than we have assumed above for purposes of argument. If these high rates had to be paid by the Dominion for the capital required to finance the purchase and equipment of her railways, the financial argument for government ownership would be utterly ludicrous. As an addendum to this, we must note that if the Dominion government took over the railways, the provinces would lose in taxation a considerable amount of money—in 1915 the tax bill was $5,049,727.62.

The political argument against government ownership of the means of transportation is also strong. In Parliament, representatives from the various and widely scattered sections of the Dominion meet to consider measures for the country's welfare; but each of these men, by the mere fact that he is the representative of his own community or class, is, by implication, bound to do all he can for his own constituency. Now, the government acts according to the amount of pressure that can be brought to bear in connection with a particular issue; that is, according to the number of votes which that issue can command. Hence, the greater the number of votes which can be secured in favor of a bill the greater is the probability that such a measure will be enacted into law. It is evident, therefore, that one of the advantages of government ownership which we have explained rests upon a very slippery foundation; it is not by any means the needs of the various sections of the country that is the basis for their consideration by Parliament, but rather the influence that can be exerted by all the forces to which the legislature has to listen.

Let not the advocates of government ownership think that with all these transportation facilities in the hands

of the government a "square deal" will be received by every locality; for he who realizes how the government does its business will be fully conversant that this much-desired equity would not be initiated or applied under the proposed control. Those sections which can bring forward the greatest pressure will get the "plums"; and other sections will be left without the means of conveyance and communication until they can exercise sufficient influence politically to compel recognition of their needs.

Increase in Employees.

Another phase of this political argument is that whenever governments have taken over railways from private control there has invariably been an increase in the number of employees who are given positions in the service. The necessity of giving these appointments so as to secure the largest number of votes is recognized by all parties. This would have a two-fold influence: in the first place, the large increase in the number of employees would soon be in a position to cause even their superiors to tremble before them; and in the second place, the large increase of expenditures in salaries and wages would soon be followed by the necessity of higher rates out of the proceeds of which to pay the larger pay-roll. In the event of failure to provide the higher rates, the management would have to call upon the government for greater appropriations of public funds to make up the deficits from revenue. But the political side of this issue can be easily seen when we note that with a greatly augmented force of government officials and employees the latter might be able to hold the balance of power between two parties and thus compel the payment of higher wages or the grant of shorter hours or other privileges.

Thus far, we have shown the anticipated advantages of and the chief objections to government ownership of railways in Canada. In considering the disadvantages of government ownership we have shown certain things which would seem to destroy some of the arguments of those who favor such a course: we have shown that public ownership would not necessarily give equality of treatment to all, that the government might not be able to raise needed capital at a lower rate of interest than private corporations, and that there would be a tendency toward higher rates rather than the opposite. Before leaving our view of the advantages, it will be well to note that the unified system of rail and water carriage, upon which some have expatiated as a means of securing great economies in transportation, would by no means be sure

to bring such a desired result. Under conditions such as we have in normal times, the greatest element in the cost of service is that of labor.

Rail and Water.

Now, if by this proposed unification of rail and water systems it is expected, for instance, that wheat from the great plains of the West will be taken by rail to Port William or Port Arthur and thence shipped by water to Montreal, the cost of transportation may be greater than if the wheat were sent through by rail, for the labor required to transfer the grain from the rail to the vessels at the head of the lakes, the payment of the labor and lock dues at Sault Ste. Marie, St. Clair Flats, Welland Canal, and the St. Lawrence canal system, together with the expenses of transhipment in order to permit the grain to go down the St. Lawrence canals, might be so great that it would exceed the cost of all-rail shipment. It is possible, therefore, in fact it seems probable, that when all the expenses are considered, including interest on capital, the cost of carriage by such a unified system as that here mentioned would exceed the estimates of its sanguine advocates. It behoves us to look at all these phases of the matter before endeavoring to decide upon the relative merits of private and governmental control.

Two Important Advantages.

From what we have said it appears as if there were left but two clearly defined advantages of government ownership; namely, that by this means there would be the elimination of the wastes of competition, through avoidance of duplication and triplication of lines, and that for purposes of national defence the government would own its indispensable and strategic transportation facilities. So far as the latter is concerned, should war in the future require, the government could commandeer the railways for the time being without any disorganization of the service; and, as for the former, if the government were now earnestly desirous of eliminating competitive wastes and had the ability to withstand the pressure of influence it could refuse to sanction enterprises which would be merely the multiplication of unwarranted lines. It seems, therefore, that the vaunted advantages of government ownership shrink to very restricted proportions.

It may be that some person will, at this point, suggest the good results that have been obtained by the Temiskaming and Northern Ontario, operated by a provincial commission. It must be acknowledged that this

is the best of all our government roads, for while it, like the others, has failed to earn interest on its capital cost, it has at least earned enough to meet its operating costs. The elements in its success are chiefly three in number: First, the important mineral output and the developing agricultural resources of the territory it serves; second, the character of the men who have been in charge of its affairs; and third, the comparative shortness of the road and its use as a junction of two longer through routes. The comparative success of this road contrasts strangely with the checkered career of the Intercolonial, which is about five times as long, and which has seldom made even its operating charges. But when a road is taken out of politics and left in the hands of capable men whose sole object is to serve the public we would expect different results from those secured by a road which has been in politics from its earliest days. Since, then, the Temiskaming and Northern Ontario Railway furnishes us with an instance of a government road which has had some degree of success, we are asked: Why should the Dominion not embark on a wider project, by nationalizing all the railways and placing them under the management of a non-partisan commission, composed of men of conspicuous ability, so as to obtain for the nation results which are comparable to those secured by these same men in private enterprise?

No Delegating Government Authority.

Why should not a commission composed of such men as Baron Shaughnessy, Sir William Van Horne, Mr. Chamberlin, Mr. Hanna and Sir William Mackenzie be given full control of the management of all the railways of the Dominion united under government ownership? Doubtless, excellent results could be obtained in this way if such a commission were made entirely independent of political changes and could rely upon unimpeded authority with ample and dependable appropriations. But, from what we have said above, it is manifest that our government does not delegate authority in this way and no such funds could be assured. Hampering restrictions of all kinds would embarrass the activities and nullify the plans of any such board. The same thing would be true if only the Grand Trunk system and the Mackenzie and Mann lines were joined under such a government commission.

One of the most persistent arguments in favor of government ownership is to direct attention to what has been accomplished by state-owned roads in other countries. It is a forceful and facile means of bringing con-

vietion to some minds; but he who would form a judicious opinion upon this great problem must consider the many differences between countries, in regard to political tendencies, economic influences and prevailing individual and social ideals, before reaching a final decision. To say that because the Prussian railways have been operated with success by the state, the Canadian railways would be equally successful under state administration, is to leave out of account a great many differences between the two peoples which vitally affect the result. Some are pointing to Australia as a country closely akin to ourselves, and are saying that since the government in that country is successful in operating the railways it is giving an entirely erroneous opinion to say that government railways in this country would not be equally efficient.

Perhaps it will not be amiss here to quote the words of Mr. Acworth, the most eminent English authority, who has had a place upon our Canadian Board of Inquiry, who recently said, concerning the English railways: "Now, I am no foe of government railways. On the contrary, I believe that in countries with a population less self-reliant than our own, such a policy is necessary. In a country with a bureaucracy as well-trained and as well-organized as that of Prussia, it may even be desirable. Nay, more, I am not concerned to deny that even here state purchase might do something to bring up the worst railway services more nearly to the level of the best. But a careful study of the evidence has convinced me that in the long run state control ends in keeping down the best to the level of the worst, and that, taking them all for all, the private railway companies of England and the United States have served the public better than the government railways of the Continent, or of our Australian colonies, and, which is still more to the point, are likely to serve it better in the future."

There seem to be good reasons, one may almost say overwhelmingly good reasons, for adherence to the principle, which has proved so effective hitherto, of private ownership of the facilities.

Enough has been said regarding the general features of these two methods of administration. What are the remedies for our existing difficulties?

It will be conceded that the chief trouble in connection with the railway problem is financial, and that when considering this problem exception must be made of the Canadian Pacific Railway Company, which is one of the strongest railway corporations of the world. The immediate issue comes in regard to the Grand Trunk Pacific

in its relations with the National Transcontinental and to the Canadian Northern Railway. Both of these concerns have recently been before parliament seeking assistance to enable them to pay their fixed charges; it is, therefore, clear that their revenues are insufficient to meet all necessary expenditures of roads that are endeavoring to keep pace with the demands of a growing country. Two possible courses are suggested as alternatives in the present temporary emergency: either increase the amount of revenues by an increased volume of traffic or by increased rates, or else reduce the expenses of operation so as to make expenditures correspond with revenues. The former plan seems impracticable for until these railways can get additional funds they cannot construct branch lines and feeders that will provide increased traffic and revenues, nor would increased rates tend to develop traffic and cause enlarged revenues. The only other course, therefore, which is open to them is to devise some plan by which these lines can reduce their working expenses.

As has recently been pointed out by Engineer W. F. Tye, of Montreal, in a paper read before the Canadian Society of Civil Engineers, the Grand Trunk system has a great network of paying lines in the east but only one long through line with almost no important branch lines as feeders in the far west. On the other hand, the Canadian Northern system has a network of branches in the west but is deficient in the east. His plan, therefore, was to consolidate the Grand Trunk system (including the Grand Trunk Pacific), the Canadian Northern system and the National Transcontinental under a new company to be formed. In this way there would be the formation of one consolidated company, to which each of these systems would contribute its elements of strength; each would supplement the other where it was weak; and in the combination of the assets of these various companies there would be the elimination of destructive competition and the working together of all for the national welfare. His plan is admirably delineated and is an important contribution to a vexing question.

I am convinced that the holding company is by far the better solution of the perplexity. I am heartily in accord with Mr. Tye in urging the desirability of the government's owning a certain proportion of the stock of the controlling company, say, 35 or 40 per cent., but it seems to me that instead of a complete fusion of all these companies for permanent operation, equally good results can be accomplished in a more economical manner by the holding company.

The holding company would pay for the stock acquired by the issuance of its own securities. The result would be a single company, the assets of which would be the securities of the other three companies, and the liabilities would be the amount of its own securities issued in payment for its assets. In this way, the existing corporations would be left in full possession of their corporate facilities and exercising all of their lawful corporate activities; but the affairs of all three would be placed under the permanent direction of the company owning the controlling interest in each, and thus there would be harmonious action on the part of all. That is, a new company would be chartered by the Dominion government with authority to hold the securities of other companies; this company would proceed to acquire a controlling interest in the stock of the Grand Trunk system, the Canadian Northern system and the National Transcontinental, and in this way competition among these companies would be prevented.

Offer to Exchange Securities.

What advantages would be secured by this form of organization, and why should we advocate this method of bringing these three concerns together? If an effort were made to bring these companies into a consolidation, it might be nullified by the refusal of certain stockholders to give up the separate existence of their companies; but by this method the separate companies would be maintained as operating units in the same capacity as they are to-day. The holding company need only secure in the open market or by private bargaining a controlling amount of the stock of each constituent. This negotiation may take the form of an offer to exchange the securities of the holding company for those of the operating company. It seems fairly certain that if the stockholders of the three companies that are now separate were shown the advantages to be obtained through such an alliance there would be no trouble in inducing their acceptance of the plan.

In financing the transaction there would be no necessity of getting together a vast amount of new capital. All that is required in the purchase of such stocks is to exchange the securities of the holding company for them, and as a bare majority, say, 51 per cent., of the stock is usually enough to control the corporations, the amount of capital required would be reduced to a minimum. If the details of the plan of operation are carried through in such a way as to show that the stock or bonds of the hold-

ing company will have a greater value than the corresponding securities of the existing companies, there would be no difficulty in securing the consent of the present security holders to exchange their holdings for the capital obligations of the holding company. In this respect the holding company has the pre-eminence over any consolidation, for in order to effect a complete consolidation of these three railway aggregations an enormous amount of capital would have to be obtained to buy up all the assets of each company; and no good purpose is to be served through consolidation that cannot be secured with much greater facility and with a small amount of capital by the method I have outlined. The economy in the use of capital and in concentration of its control is the greatest advantage which we can mention in connection with this proposal; and it is with regret that we cannot go into it more fully.

Funds Easier to Get.

The holding company would also be of decided value to the existing three companies over which it would exercise control. At the present time two of these companies are finding great difficulty in getting funds with which to carry on and enlarge their undertakings. But with a holding company at the top of the organization this would be rendered much easier. The two companies may not now have sufficient assets to mortgage as the basis of additional borowings; but the holding company could take the securities of these companies and use them as the basis of large issues of collateral trust bonds which would command a ready sale in the market. In this way the holding company could turn back funds into the treasury of each of the subsidiaries when the latter would be unable independently to borrow in the money market. The necessity of the Grand Trunk Pacific and the Great Northern Railway Companies to come to parliament for assistance would be greatly reduced and in a short time entirely avoided by having them joined under such control.

By having this unified central management, while preserving to the constituent organizations most of their individuality and initiative, and by having the finances of the aggregation managed with the utmost economy and the largest results, the country would be given the most efficient service at the least cost.

It may be said that this opens the way for a gigantic railway monopoly; and it seems to be assumed by many that anything which tends to overthrow competition and deprive us of its regulative influence must be only baneful

in its results. The fact is that competition has already ceased so far as the making of rates is concerned; and well is it for the country that this has been accomplished. The railway enterprise is essentially monopolistic and the sooner we can recognize this and get our regulative machinery adjusted to it the better it will be for all interests. My own opinion, formed after prolonged and careful study of the problems of transportation, is that all the railways of the country should be grouped under centralized control. But until that can be effected, and as a step preliminary to it, I make the foregoing proposal as the best way out of the existing dilemma. It will avoid the concomitant evils of government ownership and will give the greatest measure of benefits to all interests. I trust that what I have given in brief outline will induce others to see many accessory advantages from the scheme proposed and may form a nucleus around which to crystallize some effective thinking concerning this great issue.